

USAWC STRATEGY RESEARCH PROJECT

THE UNITED STATES, CHINA AND TAIWAN: REUNIFICATION, RECONCILIATION OR WAR?

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## ABSTRACT

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This Strategy Research Project addresses the historical and anticipated relationships between the United States (U.S.), the Peoples Republic of China (PRC) and Taiwan from 1949 until 2020. The primary question this project will attempt to answer is whether the three countries will be able to achieve a peaceful resolution to ongoing tensions over the Taiwan Straits. Of particular concern is the projected increase in PRC military capabilities and the PRC's desire for regional hegemony. By examining in detail the history, current interdependencies and projected evolution of diplomatic, military, and economic developments between the three actors, this paper will identify and present pressure points and offer alternative strategies to national decision makers. While the PRC will strive to establish the military capability to forcibly reunite Taiwan within the next fifteen years, it is not likely to pursue such a drastic course of action because of the long term negative effects to its national development. China and Taiwan will most likely achieve peaceful reunification only if China undergoes significant democratic reforms and dramatically increases its per capita Gross Domestic Product. Although China will continue to pursue regional hegemony in North East Asia, war between the U.S. and China over Taiwan is not inevitable because of the interdependencies caused by the global economy.



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## THE UNITED STATES, CHINA AND TAIWAN: REUNIFICATION, RECONCILIATION OR WAR?

“War is a matter of vital importance to the state; the province of life or death; the road to survival or ruin. It is mandatory that it be thoroughly studied.”

—Sun Tzu

On 1 January 2000 at the dawn of the new millennium, the United States (U.S.) was the undisputed superpower in the world. Americans who cared to look up from their morning stock market reports could look with satisfaction upon a world that was dominated by the U.S. in every element of power: military, diplomatic, economic and informational. Throughout much of the world, the U.S. was a bright shining example of the power and strength of a free market democracy. Most of the world believed that the 21<sup>st</sup> Century would be a continuation of Pax Americana with little threat of any serious competition. Throughout the world however, some countries were already voicing concern about what they considered to be the reckless interventionist behavior by the self-appointed policeman of the world; the U.S..<sup>1</sup> U.S. actions in Iraq, the Balkans, Africa and the Pacific were unsettling to many observers. Half way around the world across the wide waters of the Pacific Ocean, the leaders of the Peoples Republic of China (PRC) were especially disturbed by the speed and ease with which the U.S. managed to defeat states protected by armies equipped with the most modern weapons. Weapons, which in many cases were superior to any the PRC possessed. Especially irritating was the propensity for the U.S. to become involved in what the PRC believed were the internal affairs of sovereign nations.<sup>2</sup> This development in U.S. policy is of particular concern to the PRC because of its ongoing problems with Taiwan.

The U.S. view of the PRC has evolved over the last two decades. During the 1980's and early 1990's the U.S. had a tendency to dismiss the PRC as a sleeping giant, nothing more than a source to strengthen the U.S. economy. In comparison to the Asian Tigers; Singapore, Japan, South Korea, Hong Kong and Taiwan, the PRC was viewed as clumsy and provincial. This perception changed as the PRC continued to grow economically. When East Asia was on the brink of financial chaos in the late 90s, the PRC alone weathered the storm relatively unscathed.<sup>3</sup> The U.S. awoke to the fact that the PRC was a potential competitor in the region and perhaps on the global stage. The PRC's threat to Taiwan in 1996, although not credible, made the U.S. and its regional allies realize that the PRC was a force to be reckoned with. Since that time, The PRC has been viewed as a threat to U.S. interests in the area. Amazement that the PRC was actively pursuing defense technology to include sensitive leading

edge ballistic missile technology is a clear example of American naiveté. Whether the U.S. likes it or not, the PRC will continue to develop as a power and will come to its own conclusions about its national interests. "Keeping the peace on the Taiwan Strait is important for the U.S.. A war between the PRC and Taiwan, regardless of the outcome would be a disaster for both sides, for East Asia as a whole, and for the U.S.."<sup>4</sup> This statement, intuitively obvious, to even the most casual observer, should serve as a warning to the political and military leaders of the three nations involved in the ongoing tensions in the Taiwan Strait. The U.S., Taiwan and the PRC all have enormous stakes at risk over the question of reunification of Taiwan and the PRC. The purpose of this paper is to identify the national objectives of the three primary actors, the potential for conflict, and the mitigating strategies the U.S. may pursue to prevent conflict in the region. The U.S. has the potential to shape the future security environment in the Pacific. The U.S. tendency to vilify its competitors will likely not prove to be beneficial. The key to success in the region is constructive engagement now.

## DEFINITIONS

It is useful at this point to provide the definitions for concepts which will be used throughout the paper and the context in which they will be discussed:

**Democratization:** The process of making or becoming a democratic state.<sup>5</sup> The Republic of China (Taiwan) underwent democratization over a period of 50 years moving from a dictatorship under Chiang Kai Shek to a multi party democracy culminating in free elections in 1996 and 2000.

**Hegemony:** Domination of the system by a state. To be the state with the greatest power and influence in the world (global hegemony) or region (regional hegemony).<sup>6</sup> The U.S. enjoys global hegemony. The Peoples Republic of China (PRC) seeks to establish regional hegemony in East Asia.

**Reunification:** To unify again after being divided.<sup>7</sup> In this case, the strategic objective of the PRC is the reunification of China by the return of Taiwan to the PRC.

**Reconciliation:** To make friendly again or win over to a friendly attitude, to settle a quarrel.<sup>8</sup> In this case the idea that the PRC and Taiwan would agree to exist as two separate states.

**Status Quo:** To be the power which completely dominates the system. The only regional power in the system.<sup>9</sup> The U.S. as the only Global hegemon will not cede that position willingly to any other power.

## BACKGROUND

The U.S. has a longstanding interest in the Pacific and specifically in China. The 2002 National Security Strategy (NSS) of the United States provides insight to the future of U.S. relations with China during the current Bush administration:

The U.S. relationship with China is an important part of our strategy to promote a stable, peaceful, and prosperous Asia-Pacific region. We welcome the emergence of a strong, peaceful, and prosperous China. The democratic development of China is crucial to that future. Yet, a quarter century after beginning the process of shedding the worst features of the Communist legacy, China's leaders have not yet made the next series of fundamental choices about the character of their state. In pursuing advanced military capabilities that can threaten its neighbors in the Asia-Pacific region, China is following an outdated path that, in the end, will hamper its own pursuit of national greatness. In time, China will find that social and political freedom is the only source of that greatness. The U.S. seeks a constructive relationship with a changing China. We already cooperate well where our interests overlap.... China has begun to take the road to political openness, permitting many personal freedoms and conducting village-level elections, yet remains strongly committed to national one-party rule by the Communist Party. To make that nation truly accountable to its citizen's needs and aspirations, however, much work remains to be done. Only by allowing the Chinese people to think, assemble, and worship freely can China reach its full potential. Our important trade relationship will benefit from China's entry into the World Trade Organization, which will create more export opportunities and ultimately more jobs for American farmers, workers, and companies. China is our fourth largest trading partner, with over \$100 billion in annual two-way trade. The power of market principles and the WTO's requirements for transparency and accountability will advance openness and the rule of law in China to help establish basic protections for commerce and for citizens. There are, however, other areas in which we have profound disagreements. Our commitment to the self-defense of Taiwan under the Taiwan Relations Act is one. Human rights is another. We expect China to adhere to its nonproliferation commitments. We will work to narrow differences where they exist, but not allow them to preclude cooperation where we agree.<sup>10</sup>

In the current NSS, President George W. Bush articulated the desired end-state for U.S./Sino relations from the U.S. point of view. The PRC however see things differently and therein lay the tension. The U.S. Secretary of Defense is required to submit a report to the U.S. Congress on the Military Power of the People's Republic of China. The report contains an assessment of the PRC's Grand Strategy, Security Strategy and Military Strategy. According to the FY 2000 report, The PRC's primary national goal is to become a strong, modernized, unified and wealthy nation, recognized as a great power; the regional hegemon in Northeast Asia. A primary objective of the PRC is the reunification of Taiwan.<sup>11</sup>

In the PRC's NSS equivalent, the White Paper on National Defense 2000, the current PRC regime views the U.S. as a serious obstacle to achieving the goal of reunification with

Taiwan, "There are new negative developments in the security of the Asia Pacific region. The U.S. is further strengthening its military presence and bilateral alliances in this region advocating the development of the TMD system and planning to deploy it to East Asia."<sup>12</sup>

## **NATIONAL OBJECTIVES**

Both China and Taiwan have clearly stated their positions on the issue of reunification. On 21 February 2000, immediately prior to the 2000 Taiwanese Presidential elections, the Chinese government reiterated its policy: "The One-China Principle has been evolved in the course of the Chinese People's just struggle to safeguard China's sovereignty and territorial integrity, and its basis, both de facto and de jure, is unshakable."<sup>13</sup>

The policy is clear. The Chinese Communist Party (CCP) recognizes Taiwan as "an inalienable part of China".<sup>14</sup> Just as there is no doubt to the objective, neither there should be no doubt as to the means the PRC will employ to achieve reunification, "China will do its best to achieve peaceful reunification, but will not commit itself to ruling out the use of force."<sup>15</sup> One of the foundations of the CCP is the policy of eventual reunification. A successful attempt by Taiwan to gain independence could encourage other regions of the country to secede. This would undermine the authority of the communist party, an option that is intolerable. The current PRC policy for reunification is the concept of "one country-two systems", where the PRC pledges to allow Taiwan "a high degree of autonomy"<sup>16</sup> similar to the model used in Hong Kong and Macao with the exception that PRC troops would not be stationed on the island.

Taiwan's position is equally clear. The Taiwanese government stated, "the mainland policy of the Republic of China (ROC) has consistently been based on the respect for separate rule of the two sides of the Taiwan Strait" and "the ROC has always been an independent sovereign state."<sup>17</sup> China intends to use every element of national power to achieve its national objective of reunification whereas Taiwan will use its power to oppose forced annexation. The winners of the 1996 and 2000 Presidential elections, the first free elections in Taiwan' history represented the pro-independence Democratic Progress Party. Both earned over 54% and 59% of the popular vote respectively, stunning mainland observers.<sup>18</sup> Additionally, recent polls show the majority of Taiwanese citizens prefer independence.<sup>19</sup> With a capable military, a strong economy and a true multi-party democracy it is not likely the citizens of Taiwan will voluntarily subject themselves to PRC governance.

The U.S. position on the issue is seemingly as complicated as its long history with China. Statements by President George W. Bush pledging to defend Taiwan from PRC aggression and simultaneous U.S. State Department reaffirmation that the U.S. does not

support Taiwanese independence reflects the complexity of the issue.<sup>20</sup> President Zemin of China told President Bush during his 2002 visit to the PRC that “the Taiwan issue was the most sensitive core issue in U.S.-Sino relations.”<sup>21</sup> Although the U.S. continues to recognize the “one china-two systems” construct publicly, the reality is the U.S. has never taken its commitment to support reunification seriously. This reality was demonstrated in 1996 when President Clinton dispatched two carrier battle groups to the Taiwan Straits as a show of force when the PRC flexed its military muscle in a failed attempt to influence the 1996 Taiwanese presidential election.

Taiwan has been a staunch U.S. ally, is a valued trading partner, the U.S.’ eighth largest, and most importantly has transitioned from a military dictatorship to a truly democratic political system. In contrast the PRC is the U.S.’ fourth largest trading partner and although many U.S. companies have capital investment and joint ventures on the mainland, China is a communist state with a long history of human rights abuses and it is emerging as a competitor to the U.S. in the region. It is unlikely that the U.S. will ever support a reunification that Taiwan resists. It is simply not in the U.S. interest for reunification to occur. A unified China would most likely be an economic powerhouse with significant military capability. Other Asian states may drift toward a unified China, particularly a democratic China. A resurgent Chinese led Asia could offer a serious challenge to the U.S..

## **HISTORY**

How did we arrive at this point? After the defeat of the Chinese Nationalist Kuomintang Government (KMT) by the Chinese Communists in 1949, the KMT regrouped on the Island of Formosa and carried on the struggle as the Republic of China (ROC). The U.S. did not formally recognize the PRC but continued to provide assistance to the ROC during the 50’s and 60’s while fighting Communist Chinese forces in Korea and Viet-Nam. Meanwhile the ROC and PRC continued their conflict both diplomatically and militarily with the ROC offering to supply forces to help the U.S. during the Korean War. Threats of an invasion by the PRC led to a mutual defense treaty between the U.S. and the ROC in 1954 and the U.S. maintained a military presence on the island until 1979.

Seeking a way out of the stalemate of the Viet-Nam War and wanting to exploit a breakdown in relations between the Union of Socialist Soviet Republics (U.S.S.R.) and the PRC, Former Secretary of State Henry Kissinger initiated a series of secret negotiations with the PRC in 1970 in preparation for a state visit by then U.S. President, Richard M. Nixon. This initiative was welcomed by the PRC’s leader, Mao Ze Dong. Mao was concerned about the



increased belligerence and the massive buildup of the Soviet military during the late 1960s and 70s. China was hopelessly outclassed by the U.S.S.R. in every area of national power. As a result of talks that took place during this visit in February 1972, the two governments published the "Shanghai Communiqué" or the "Joint Communiqué of the U.S. of America and the People's Republic of China."<sup>22</sup> This unique document not only provided the framework for the termination of U.S. involvement in the Viet-Nam war and U.S. - Sino cooperation but also covered the future of Taiwan. In particular "The Chinese Side reaffirmed its position: "The Taiwan question is the crucial question obstructing the normalization of relations between China and the U.S..<sup>23</sup>

Both sides went on to state their different views on this topic:

The Government of the People's Republic of China is the sole legal government of China; Taiwan is a province of China which has long been returned to the motherland; the liberation of Taiwan is China's internal affair" and " The U.S. side declared: The U.S. acknowledges that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China. The U.S. Government does not challenge that position. It reaffirms its interest in a peaceful settlement of the Taiwan question by the Chinese themselves."<sup>24</sup>

In other words, both sides put their official position on record and agreed to disagree, in order to "open up new prospects for the relations between the two countries."<sup>25</sup> This communiqué and two others issued during the Carter and Reagan administrations respectively are the basis for current U.S. and PRC policy and are the basis for the current situation. None of the communiqués provided any specific details or a timeline for reunification. This ambiguity is a major cause of the current tensions.

Negotiations in 1979 led to full diplomatic recognition of the PRC by President Carter and a corresponding break in official diplomatic relations with Taiwan to include termination of the 25 year old U.S./ROC Mutual Defense Treaty. The U.S. did not totally abandon Taiwan however. In 1979 Congress passed the Taiwan Relations Act (TRA) which declared that:

"to make clear that the U.S. decision to establish diplomatic relations with the People's Republic of China rests upon the expectation that the future of Taiwan will be determined by peaceful means; to consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the U.S.; to provide Taiwan with arms of a defensive character; and to maintain the capacity of the U.S. to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on Taiwan."<sup>26</sup>

The TRA made provision for political, military, cultural and economic relations between the U.S. and Taiwan.

The TRA has been the authority for continued support of Taiwan even as successive administrations have pressed for expanded economic relations with the PRC. The contradiction in language between the TRA and the Joint Communiqués is representative of the almost schizophrenic relationship the U.S. and the PRC has maintained for the past thirty years. On one hand the U.S. agrees to the one China principle, on the other hand the U.S. is bound by U.S. Law to provide for the defense of Taiwan. The U.S. has consistently emphasized the economic relationship between itself and the PRC, while side stepping the issue of reunification. What was expedient diplomacy in 1972 is part of the reason for today's crisis de jure.

Adding to the problem is the official reaffirmation of the One-China policy in 1979 and 1982 by Presidents Carter and Reagan respectively. To the PRC, there is no issue. As they see it, the U.S. position for the last thirty years has been support for a One-China policy.

Comments by former U.S. Secretary of State Henry Kissinger during a trip to China in 2002 to celebrate the signing of the Shanghai Communiqué reinforce PRC beliefs. He noted that the one China principle in the Shanghai Communiqué has been maintained by seven U.S. administrations by both the Republican and Democratic parties. Kissinger stated; "Every American president since President Nixon's visit, no matter what he said in the campaign and no matter how he started, has returned to that fundamental principle,"<sup>27</sup> The PRC sees as disingenuous reminders by the U.S. that the U.S. will only support peaceful reunification.

In April 2001, President Bush removed any ambiguity about his administration's views on the problem when he publicly stated the defacto U.S. position on Taiwan. In an interview with ABC news after the crash-landing of a U.S. Navy EP3 Surveillance plane on Hainan Island following a mid-air collision with a Chinese Air Force F7 Fighter Aircraft, he pledged "to do whatever it takes to defend Taiwan from any Chinese attack, our nation will help Taiwan defend itself. At the same time we support the One-China policy."<sup>28</sup> This statement confirmed what the Chinese probably had long suspected, that the U.S. would never support reunification. In one of two references to Taiwan in the 2002 National Security Strategy the President reaffirms the U.S. commitment "to the self-defense of Taiwan under the Taiwan Relations Act"<sup>29</sup> This perceived U.S. arrogance and duplicity reinforces Chinese suspicions following the accidental bombing of the Chinese Embassy in Belgrade and the actions of the U.S. in Kosovo and the Persian Gulf. PRC frustration is apparent as indicated by the following excerpt from the 2002 PRC White Paper on National Defense:

“The basic pattern and trend of development in the cross-Taiwan Straits relationship remain unchanged. As the Taiwan compatriots are more vocal in their demand for peace, tranquility and development, cross-Straits economic, trade, cultural and personnel exchanges have become more frequent, and the opening of three direct links in mail, air and shipping, and trade between the two sides represents the popular will and the trend of the times. But the root cause of tension between the two sides has not been eliminated. While refusing to accept the one-China principle, and stubbornly clinging to the position of “Taiwan independence,” the leader of Taiwan has even gone so far as to dish up the separatist proposition of “one country on each side,” and carried out all sorts of separatist moves with an incremental tactic. The Taiwan separatist force is the biggest threat to peace and stability in the Taiwan Straits. By continuing to sell weapons and military equipment to Taiwan and elevating relations with the Taiwan authorities, a handful of countries have interfered in China’s internal affairs, inflated the arrogance of the separatist forces and undermined China’s peaceful reunification.”<sup>30</sup>

The PRC is serious about the One-China policy. It has reacted quickly and assertively any time it believes either the U.S. or Taiwan has deviated from what the PRC believes is a core national value. As recently as March 2003 at the first session of the 10th National People’s Congress (NPC), China’s top legislature, Premier Zhu Rongji commented on the principle of reunification during his opening remarks to the delegates:

“The mainland must implement the basic principles of “peaceful reunification” and “one country, two systems” and the eight-point proposal for the settlement of the Taiwan question, strive for an early resumption of dialogue and negotiation between the two sides of the Taiwan Straits on the basis of the one-China principle, and strongly oppose any statements or actions aimed at creating “Taiwan independence,” “Two Chinas” or “One China, One Taiwan.”<sup>31</sup>

One should remember the following when discussing the PRC’s persistent claims to Taiwan; the majority of the island’s inhabitants are native born, not ethnic Chinese and don’t consider themselves Chinese.<sup>32</sup> Further exacerbating this is the fact that the KMT lost power to the Democratic People’s Party (DPP) when native Taiwanese candidates were elected to the presidency in 1996 and 2000. This was a major blow to the PRC because the CCP could no longer pretend that the majority of Taiwanese citizens wanted reunification.

## **ECONOMIC POWER**

“Wealth is the foundation of military power”.<sup>33</sup> The underpinning of the PRC’s rise to prominence is its vibrant economy. With a sustained rate of 7% or better growth each year since 1980 including during the economic crisis that rocked the region in 1998, The PRC’s success is remarkable. The PRC is the largest developing country and the largest industrialized nation in the world. Since China established diplomatic relations with the U.S. in 1979, bilateral

trade and economic cooperation have become one of the most important foundations and driving forces of the bilateral relations. According to PRC figures the volume of China-U.S. bilateral trade exceeded 74.4 billion United States Dollars (USD) in 2000 an increase of 21.2% compared to the previous year. Meanwhile, the total contractual U.S. investment in China reached 63.41 billion USD by the end of May 2001.<sup>34</sup>

## US Trading Partners (Total Trade)

Country	1994	1995	1996	1997	1998	1999	2000	2001
Canada	242844	272575	290103	319968	329859	365311	409779	379692
Mexico	100337	107977	131089	157326	173402	196630	247275	232634
Japan	172643	187822	182794	187212	179676	188330	211403	183925
China	48069	57297	63505	75420	85410	94899	116203	121461
Federal Rep Germany	50973	59238	62440	67580	76499	82028	87961	89072
United Kingdom	51957	55754	59941	69084	73896	77644	84915	82083
Korea, South	37655	49564	49276	48219	40428	54137	68138	57362
Taiwan	43815	48261	48368	52995	51290	54335	64909	51496

TABLE 1: U.S. TRADE PARTNERS<sup>35</sup>

The U.S.' 4th largest trading partner, China has more that tripled the value of its trade with the U.S. since 1994. During that same period Taiwan's trade grew a more modest 10%. This spectacular growth has not come without a cost to the PRC. The majority of the growth is concentrated in the labor intensive manufacturing sector which exploits the PRC's limitless cheap labor pool. There is tremendous economic disparity between the rural and urban populations. The statistics for 2002 indicate that the average increase in personal wealth was almost three times higher for urban workers. Futurist Alvin Toffler noted during a visit to the PRC in 2001:

“China has three different spheres of society. Some 700 million to 900 million people, mainly peasants, still live in the "first wave" world. They need to benefit from development, and are at the highest risk of being hurt by China's WTO entry. The "second wave" consists of the 250 million to 300 million Chinese who belong to the urban industrial world of mass manufacturing. Only a small population of 10 million are information age people, or the knowledge-based "third wave" group. Toffler said the disparities between the three are difficult for a government to manage. He said the "wave-ratio" in China will change in the next 10 years or more, and China will make historic changes within one generation.”<sup>36</sup>

The PRC has poured vast amounts of capital into failing state business ventures in an effort to provide work for its citizens. Likewise, the government has embarked on a deficit spending program for costly public works projects to boost employment. The large deficit spending is a significant drag on the economy and undermines the credibility of some economic claims made by the PRC.<sup>37</sup> More importantly there is a threat of growing discontent from a large section of the population in the central and western areas of the country, and regions with significant non-Chinese minorities. These groups pose a potential threat to the central government. “China has serious problems. State-owned enterprises are hemorrhaging money, throwing more people out of work and contributing to a growing pool of migrancy. Its financial markets are largely untamed, its banks broke and corruption rife. Looming over all of that is an environment straining under the pressures of breakneck economic growth.”<sup>38</sup>

A major theme of the recent 14th Party Congress was the priority given to economic and development assistance programs targeted at the western and central regions.<sup>39</sup> The CCP realizes that its flirtation with capitalism is done at significant risk to its survival. If the gap between rich and poor grows too great, the masses may look to an alternate form of government.

Taiwan by comparison has a vibrant economy with one of the highest standards of living in the world. One of the “Asian Tigers”, although Taiwan’s economic growth rate does not match the PRC’s, Taiwan has weathered the economic downturn in Asia relatively unscathed. Its Gross Domestic Product Per Capita is \$22,559 as compared to only \$4,329 for the PRC. Much of the PRC’s growth is due to direct investment from Taiwan. Estimates of Taiwan direct investment in the mainland range from 28-60 Billion U.S. Dollars since 1986. Investment has increased 30% – 70% annually since 1993. In fact there is some concern by the Taiwanese government that the level of Taiwanese investment in the mainland has the potential to undermine Taiwan’s economy and limits to the amount and types of investment have been imposed.<sup>40</sup>

Taiwanese companies pursue investment on the mainland for the same reason other countries do. The PRC provides a vast pool of cheap, skilled and disciplined labor. In order for Taiwanese industries to compete on the global marketplace, they must aggressively lower costs. Moving labor intensive manufacturing industries to Mainland China helps to keep costs down and profit margins high. This interdependence provides tremendous incentive for peaceful coexistence between the two companies.

The table below highlights Taiwan's strong economy and potential for growth. The Growth Competitiveness Index (GCI) analyses Gross Domestic Product, overall economic growth, unemployment ratings, government stability, trade balances and debt with many other factors to paint an assessment of a nation's sustained economic potential. Taiwan is a global leader along with the U.S.. The PRC on the other hand lags far behind at 33.

Country	GCI 2002 rank	GCI 2002 score	GCI 2002 rank among GCR 2001 countries*	GCI 2001 rank
United States	1	5.93	1	2
Finland	2	5.74	2	1
Taiwan	3	5.50	3	7
Singapore	4	5.42	4	4
Sweden	5	5.40	5	9
Switzerland	6	5.36	6	15
Australia	7	5.36	7	5
Canada	8	5.27	8	3
Norway	9	5.24	9	6
Denmark	10	5.23	10	14
United Kingdom	11	5.17	11	12
Iceland	12	5.16	12	16
Japan	13	5.08	13	21
Germany	14	5.06	14	17
Netherlands	15	5.03	15	8
New Zealand	16	5.03	16	10
Hong Kong SAR	17	4.93	17	13
Austria	18	4.93	18	18
Israel	19	4.93	19	24
Chile	20	4.89	20	27
Korea	21	4.89	21	23
Spain	22	4.88	22	22
Portugal	23	4.87	23	25
Ireland	24	4.86	24	11
Belgium	25	4.81	25	19
Estonia	26	4.73	26	29
Malaysia	27	4.70	27	30
Slovenia	28	4.64	28	31
Hungary	29	4.63	29	28
France	30	4.62	30	20
Thailand	31	4.52	31	33
South Africa	32	4.47	32	24
China	33	4.37	33	39
Tunisia	34	4.35	—	—
Mauritius	35	4.34	34	22

TABLE 2: GROWTH COMPETITIVENESS RANKINGS TABLE<sup>41</sup>

## **ECONOMIC ASSESSMENT**

Globalization has helped to inextricably link the futures of Taiwan the PRC and the U.S. All three become more and more dependent on each other economically every day. Although there are concerns about trade imbalances with each other, the following assessment sums up the importance of the economic relationship: "economics has been overwhelmingly the most important basis of China-U.S. relations over the last 20 years," overriding military security and unresolved policy differences, and accounting for over 95% of official interaction between the two nations."<sup>42</sup>

Economic growth is the engine that drives all three country's futures. It is something that all three can find a common interest in. It is also an area that all three have an interest in improving. Trade between the three is likely to increase in the future which benefits all. The economic interdependency of the three may be the greatest incentive for peaceful resolution of the independence issue. Any action that disrupts trade hurts the economies of all three protagonists. It is in the best interests of all three to maintain peaceful relations. As a final point, it may not be in the best interest of the U.S. for Taiwan and PRC to reunify. The economic potential of the two combined would certainly provide a regional and even global challenge to the U.S. in the future.

## **MILITARY POWER**

During the 90's the conventional wisdom among defense experts was that China did not have the military capability to successfully invade Taiwan. It was believed that the material and organizational superiority enjoyed by the ROC combined with the ninety-mile wide water barrier posed an insurmountable challenge for the PRC. That assessment is shifting. The PRC has commenced a rapid military modernization, funded by a healthy economy.<sup>43</sup> The PRC is quickly attaining the military means to support its national policy of reunification. "Preparing for a potential conflict in the Taiwan Strait is the primary driver for China's military modernization."<sup>44</sup> Although exact figures are elusive, the official defense budget for 2003 rose to \$20 billion, an increase of 17% over the 2002 budget.

2002 was the 13th straight year of double digit increases for the People's Liberation Army (PLA).<sup>45</sup> (See figure 1 below). Many observers believe the PRC may actually spend up to three times more than the "official" figure. Even if it were only twice that amount it would account for approximately 5.5% of its GDP. By comparison, the ROC spends approximately 4.5% of its GDP on defense and the U.S. spends approximately 3.5% of its GDP on defense.

To put all of this in perspective, the U.S. because of its much larger GDP spent over \$324 Billion on defense during 2002 an increase of 4.2% from 2001. The total U.S. defense budget is almost five times that of the PRC<sup>46</sup>. This point is not lost on the PRC as it highlights the fact in its 2002 White Paper. (See figure 2 below).

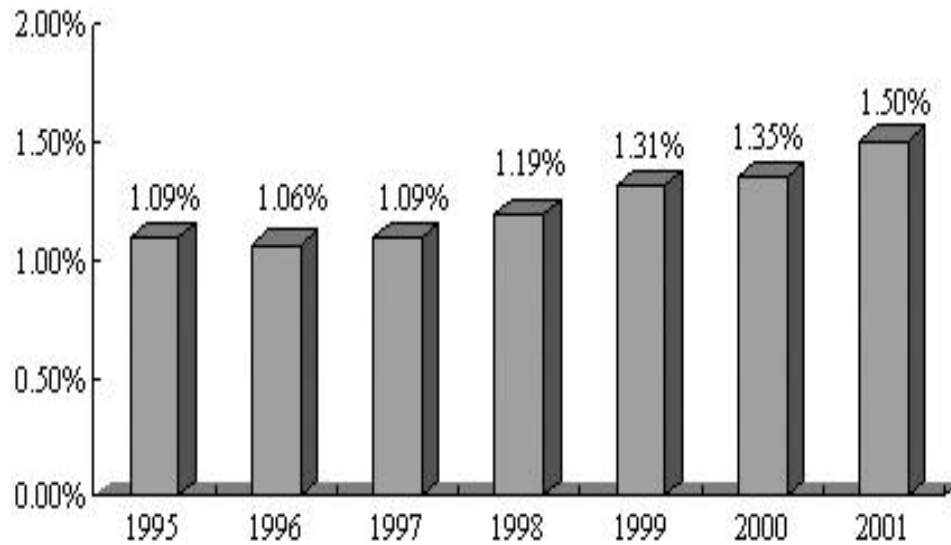


FIGURE 1: PERCENTAGE OF CHINA'S ANNUAL DEFENSE EXPENDITURES<sup>47</sup>

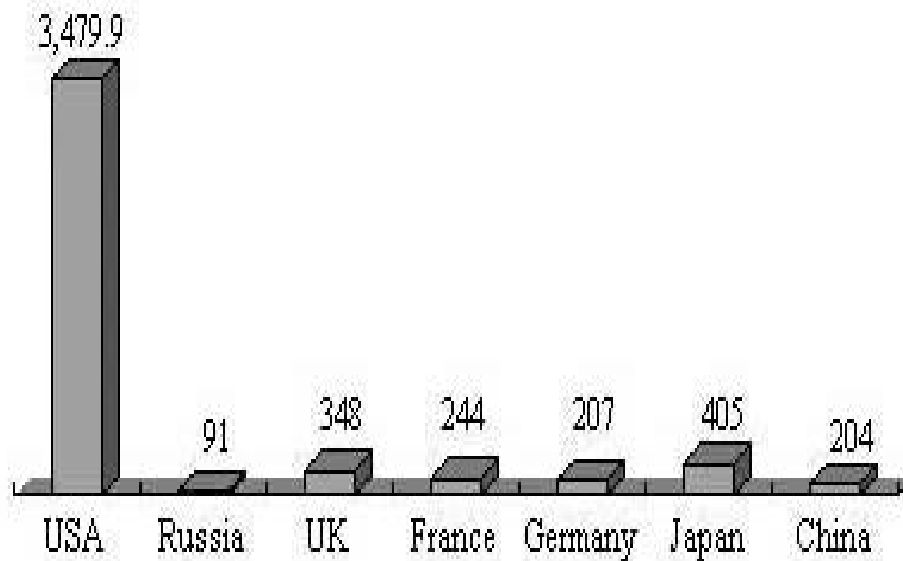


FIGURE 2: COMPARISON OF DEFENSE EXPENDITURES IN 2002 (MILLIONS OF USD)<sup>48</sup>



The PRC's military spending has certainly increased but it is well within the ability of the economy to carry. Chinese defense spending as a percentage of GDP is much lower than that of the USSR during the cold war. The Chinese are not likely to repeat the Soviet mistake of subordinating military might at the expense of everything else. If the economy continues at its present pace, military spending will most likely increase proportionally. If however the economy falters, the military will see a corresponding decrease in available funds. As recently as March 2003 the PRC announced that increases in military spending for 2004 would be less in order to focus on development in Western China, an area of increasing concern within the CCP because of the presence of large non-Chinese ethnic populations with the potential to cause problems to the party.<sup>49</sup>

The PLA is the military arm of the CCP. The Central Military Commission (CMC) exercises operational command over the PLA. The active components of the PLA are the Army (PLA), Navy (PLAN), Air Force (PLAF) and the Second Artillery Force and the Peoples Armed Police (PAP). With a combined active duty strength of more than three million personnel the PLA is the largest military force in the world.<sup>50</sup> The army is the largest of the PLA's services. Large, ill equipped and poorly trained with minimal offensive capability, its size is a drag on the modernization efforts of the entire PRC defense establishment. The much heralded downsizing of the late 1990's had little impact since most of the positions that were cut simply transferred to the PAP. As the PLA transforms to a more professional force, the PAP picks up many of the PLA's old internal security duties.

The PRC has always enjoyed numerical superiority over Taiwan in every area. Taiwan offset this advantage with a qualitatively superior Air Force and Navy. In the 80's the PRC began a slow modernization process. During the 90's its senior military officers closely watched the U.S. defeat Iraq and Serbia and took away their own lessons learned. They identified the importance of information operations, command and control and asymmetric warfare.

"Rapid and drastic changes are taking place in the military field around the world, and a new serious disequilibrium has occurred in the balance of military power. The extensive applications in the military field of new and high technologies led by IT have stretched the battlefield into multidimensional space which includes the land, sea, air, outer space and electron. Medium- and long-distance precision strikes have become an important pattern of operations. The form of war is becoming increasingly information-oriented. All major countries have made adjustments in their military strategies and stepped up the modernization by relying on high technologies. As far as military technology is concerned, the gap

between the developed and developing countries is wider than ever before. The developing countries are facing a serious challenge in their effort to safeguard sovereignty and security.”<sup>51</sup>

As a result, the PLA has aggressively purchased or produced the material required to attack the U.S. and Taiwan asymmetrically. The PRC bought arms from a variety of sources but Russia in particular has benefited from a close relationship. Russian sales to the PRC have included SA 10 air defense systems, Sovremenny Class Destroyers armed with supersonic speed SUNBURN anti-ship missiles and SU-27 Air Superiority Fighters. These systems provide the PRC with the means to significantly threaten U.S. carrier battle groups for the first time.

The PRC has pursued and acquired quiet diesel submarines armed with wake homing torpedoes and cruise missiles, ballistic missiles, 4th generation combat aircraft, anti-ship missiles, modern integrated air defense systems and offensive electronic warfare systems.<sup>52</sup> Their purchases have often included joint production clauses, such as with the SU-27 FLANKER. The PLAAF currently assembles the SU-27 from kits and can also conduct major overhauls. The benefits to the PRC are obvious. This strategy allows the PRC to conduct technology leaps ahead in areas it has lagged behind technically. This approach also allows technology transfer that will most likely end with indigenous production followed by proliferation. A perfect example is the acquisition of the SU-27. China has been unable to indigenously produce modern commercial airliners much less modern fighter aircraft. Its best effort, the F7, has resulted in a mediocre performance of a 2d generation fighter. Purchasing the SU-27 from Russia allowed the PRC to instantly acquire a modern fighter with little organic investiture in research and development. Similar results were achieved with diesel electric submarines and the Sovremenny Class Destroyers. This is not to imply that the PRC is incapable of producing modern weapons systems. On the contrary, China's Theater Ballistic Missile (TBM) development program demonstrates their technical prowess.

The most immediate threat to Taiwan is that posed by the 350-400 ballistic missiles of China's Second Artillery.<sup>53</sup> The majority of this force is believed to be located within close proximity to the PRC coast within range of Taiwan. The PRC has the ability to use these systems to strike high payoff targets such as air defense systems, command and control nodes, airfields and ports with relative impunity. The missile systems are mobile, easily dispersed and believed to be very accurate.

Despite a meteoric rise in potential, systemic weaknesses exist across the PLA. Shortcomings in training, maintenance, modern equipment and joint operations continue to frustrate realization of a truly modern and capable military. Large scale military exercises over the last few years continue to highlight problems in these areas, but in the next five to ten years the PRC will most likely develop the military capability it desires. The PRC has focused its modernization funds on capabilities and specific forces that will provide a threat against Taiwan and the U.S.. As a result the majority of the force will never be adequately modernized. Some strategists predict that the PRC is more likely to use their large TBM force in conjunction with the PLAN's submarines and PLAF's aircraft to blockade Taiwan than attempting to conduct an amphibious attack against the island. These strategists believe that this offers the best chance of success with the lowest cost to the PRC.

Taiwan has the world's fifteenth largest military force.<sup>54</sup> Taiwan's defenses, although currently adequate, will most likely be eclipsed by PRC offensive capability within 5-10 years. Simulations suggest that only intervention by the U.S. will tip the balance to Taiwan's favor over the long term, but even the U.S. will be challenged by the growing PRC threat.<sup>55</sup> The ROC defense strategy has evolved over the years. In the 1950s and 60s the strategy was an optimistic "Counterattack the mainland (*fang gong da lu*)". During the 70s and 80s the policy shifted to "Offense- defense together (*gong shou i ti*)". Finally, during the last decade the strategy has been the pragmatic "Defense only (*zhuan shou fang wei*)".<sup>56</sup>

The ROC has no true offensive capability and likely has no interest in initiating offensive actions against the PRC. Its strategy, equipment and force structure are primarily defensive. Taiwan's greatest military capability is its Air Force (ROCAF). Equipped primarily with 4th generation fighter aircraft manned by well-trained pilots, the ROCAF is the operational center of gravity for Taiwan. Its primary weakness is its reliance on a limited infrastructure which is susceptible preemptive attacks by PRC TBMs, Special Operations Forces (SOF) and the PLAAF.

The ROC Navy would be challenged early in any conflict by the PLAN's submarine force, Sovormmeny Class Destroyers armed with the especially lethal SUNBURN anti-ship missiles and PLAAF cruise missile equipped aircraft. The ROC Navy is vulnerable to PRC submarines and air launched anti-ship cruise missiles because of limitations in anti-submarine and anti-air defenses. Its survivability is questionable under all out attack by the PRC.

The ROC Army poses a serious threat to any amphibious landing or airborne assault. It has the capability to defeat initial landing but if denied air support it may be denied operational

mobility. In such an event, if the PRC is able to establish a lodgment the ROC Army will require mobility to successfully conduct counterattack operations.

Although Taiwan currently has possesses the military advantage over the PRC, the PRC's focus on modernizing its forces will likely allow its military to eclipse Taiwan's in the next decade. U.S. military capability is currently the decisive factor in the region. The world's second largest military as well as the most powerful<sup>57</sup>, the U.S. possesses the force projection capability to establish and maintain a protective umbrella over and around Taiwan to include the waters in the littoral. The U.S. could deploy the Naval and Air Forces required to shift the military advantage away from the PRC.

U.S. military capabilities currently exceed those of the PRC in every critical area. As discussed earlier however the U.S. also has serious shortfalls. Much of the U.S. forward projection is dependent on bases and support infrastructure located on foreign territory. There is no assurance that U.S. allies in the region will automatically provide access in the event of a confrontation over Taiwan. Countries such as Japan, South Korea, Thailand, Singapore and the Philippines will have to carefully weigh their long-term interests before they acquiesce to any U.S. requests for basing. The sustained aircraft sortie generation rate required in a conflict may be impossible to maintain if the U.S. were denied bases in the region. Under the worst case, allies may restrict use of their airfields to Intelligence Surveillance and Reconnaissance or Medical Evacuation missions only. If the U.S. Navy had to conduct underway replenishment from Guam or Hawaii, sustained operations would be extremely difficult. If allies denied port access to battle damaged ships, naval operations would be greatly complicated.

Although the U.S. is likely to have the military capability to prevent the PRC from successfully invading Taiwan, a traditional amphibious invasion is not likely to be the tactic of choice. An amphibious invasion potentially offers the quickest way to achieve the PRC's goal but it offers the highest risk of catastrophic failure. Other military options include isolation of Taiwan by blockade; either by air and sea, or TBM strikes. These tactics however would take time to work and would provide the opportunity for the U.S. to enter the fray. The most attractive option for the PRC is to select a course of action which does not allow the U.S. to influence the situation.

## **MILITARY ASSESSMENT**

In the next 10-15 years China will most likely develop the military capability to forcibly reunite Taiwan sans U.S. interference. Losses to each side would likely be high both in terms of

loss of life and economic impact. The PRC does face one major limitation: it can attempt to militarily subdue Taiwan only if success is assured. Failure to achieve the objective would be catastrophic for the Communist Party. This fallout resulting from military failure could cause disintegration of the party with a resulting collapse of the country. Only if the PRC believes it has the capability to “win” will it be tempted to pursue a military solution. This is the crux of the problem facing the U.S. Any ambiguity in the U.S. stance or distraction could be misinterpreted by the PRC as a window of opportunity. The Chinese are unlikely to pursue a protracted campaign. Instead they are likely to use the element of surprise and attempt a “coup de main” before the U.S. can deploy appropriate forces to the area. Failing that, the PRC is likely to attempt to block U.S. forces from influencing the battle-space using all capabilities short of nuclear weapons.

## **REUNIFICATION VS RECONCILIATION**

As discussed previously, a reunified China would be an economic and military powerhouse. A reunified China could be a strong threat to the U.S.. Peaceful reunification however, is likely to occur only if the following conditions are met. The PRC must democratize, and the PRC must dramatically raise its GDP per capita. Failure to achieve both would most likely discourage any agreement by the citizens of Taiwan to reunify. It is inconceivable to think that the Taiwanese would agree to cede their political freedom and prosperity for a reunified China, particularly given their ethnicity. In other words, the benefits must clearly outweigh the disadvantages. Also, there is no guarantee that reunification will be sought even if the conditions described above are met. The Taiwanese have a strong national identity which should not be ignored.

Reconciliation on the other hand may be more likely to succeed in the long term. In fact, the current relationship minus the “One-China policy” is essentially a degree of reconciliation. If the mainland drops its demand for reunification and allows independence, the benefits of cooperation vice competition may allow the two countries to grow even stronger. It is hard to imagine the circumstances that would lead CCP to abandon its goal of reunification. It is probable that only the emergence of a true democratic form of government on the mainland would allow Taiwan to trust its neighbor. Therefore true reconciliation is most likely only if the mainland democratizes, something that arguably will occur in the future.

## INEVITABLE CONFLICT?

In his book, The Tragedy of Great Power Politics, John Mearsheimer argues that if China's economy continues to develop as predicted it is inevitable that the U.S. and China will clash:

"Many Americans believe that if China is democratic and emeshed in the global capitalist system, it will not act aggressively; instead it will be content with the status quo in Northeast Asia....If engagement succeeds, the U.S. can work with a wealthy and democratic China to promote peace around the globe....Unfortunately, a policy of engagement is doomed to fail. If China becomes an economic powerhouse it will almost certainly translate its economic might into military might and make a run at dominating Northeast Asia. Whether China is democratic or autocratic will have little effect on its behavior.....The result would be an intense security competition between China and its rivals, with the ever present danger of great-power war hanging over them. In short, China and the U.S. are destined to be adversaries as China's power grows"<sup>58</sup>

Mearsheimer offers a powerful argument, however before agreeing to such a pessimistic view one should look at China's behavior during its modern history from 1950 to the present. China has demonstrated no aversion to going to war to protect or advance its interests. Examples include PRC support to Korea, its invasion of Viet-Nam in 1979, and border conflicts with India and the former Soviet Union. China has also moved aggressively to protect its territory including the occupation of portions of the Spratly and the Paracel Islands. In addition, the PRC continues to dispute Japan's claims to the Senkaku Islands. In pursuit of these objectives China has also demonstrated its willingness to accept what the U.S. would consider exorbitant casualties. In the war with Viet-Nam, China admitted to over 20,000 casualties.<sup>59</sup> Although these facts would tend to confirm the realist theory advanced by Mearsheimer and others, there is an alternate conclusion.

China has been relatively constrained since its 1979 invasion of Viet-Nam. Its focus under Deng Xiaoping on building comprehensive national power by stressing China's economic development at the expense of the military has paid off. By avoiding the mistakes of the Soviet Union, China took military risk by hiding behind its small nuclear force and their large but poorly equipped PLA. Taking the gamble that no opponent was willing to pay the cost for involvement in a ground war, China pursued a capitalist course. The PRC lesson is that it really is the economy that matters.

The PRC's continued growth is largely dependent upon foreign investment and free trade. Any activity which causes loss of investor confidence or disrupts free trade, will negatively affect the PRC's economic security. The PRC Government is keenly aware of this. The PRC is a

large part of the global economy and its future depends on responsible action. It will likely carefully weigh the potential economic and diplomatic isolation it would face against the expected gain. Australia's Foreign Affairs Minister recently stated: "China's neighbours no longer fear it as a political or military threat, however. China appears to have forsaken ideological confrontation, according to Downer. The only remaining diplomatic concerns, he said, are cross-Straits relations and competing claims in the South China Sea."<sup>60</sup>

One should not be misled however that states only make decisions that have economic benefits. If the PRC perceives a threat to its security either internally or externally it is likely to take action. The movement of PLA forces into Macao and Hong Kong is proof that the PRC is not hesitant about protecting its interests. Additionally any threat to the CCP or even loss of face on the international stage may also override economic concerns. The PRC will most likely continue to tolerate the status quo with Taiwan as long as Taiwan behaves. Any acts of defiance such as a Taiwanese declaration of independence might cause the PRC to take drastic action.

On the other hand, Taiwan may never seek reunification, even if the PRC conducts true democratic reform and makes dramatic economic improvements. Since most Taiwanese don't have particularly strong cultural ties to the mainland, it is likely that peaceful reconciliation is more likely than peaceful reunification. Until Taiwan and the PRC make a mutual decision to peacefully resolve the issue by reunification or reconciliation, a tense status quo with the potential to erupt in violence may exist indefinitely.

## **CONCLUSION**

Eventual resolution of the reunification issue between the PRC and Taiwan is certainly possible and is highly desirable. Reunification is in the best interests of the PRC, reconciliation is the best option for Taiwan and the U.S.. Although the PRC is estimated to have the capability to seriously challenge Taiwan militarily in the next 10 – 15 years, the U.S. military will most likely maintain the capability to balance the PRC threat indefinitely. Political stability in the PRC is dependent on continued economic growth that must be sustained in order to satisfy the rising expectations of the PRC's citizens. The CCP understands that PRC economic growth is dependent on access to global markets. A conflict in the Taiwan Straits would certainly disrupt trade and pose a threat to the survival of the CCP. The threat of economic disruption is an incentive for the CCP to avoid war over Taiwan. Although not discussed in any detail in this paper, the PRC will almost certainly democratize in the future. If the PRC undergoes a peaceful

transition to democracy and raises its standard of living dramatically, Taiwan may have the ability to choose between peaceful reunification or peaceful reconciliation.

All previous assumptions may become invalid if: Taiwan declares its independence, The CCP faces a threat to its survival so great that it whips up nationalism in an attempt to distract attention from the CCP's inadequacies or the PRC believes it has a window of opportunity to attack Taiwan because the CCP believes the U.S. will not go to war over Taiwan or the PRC obtains some type of technological military dominance over the U.S..

The situation will remain dangerous if not volatile because of the underlying strategic U.S.- SINO competition. In order to prevent a crisis, the U.S. must not allow the PRC to doubt our interest in peaceful resolution of the Taiwan issue. The U.S. must ensure that Taiwan does not provoke the PRC by any declaration of independence or similar "provocative acts". The U.S. must continue to engage the PRC economically in order to build on a source of common interest to all three nations. The U.S. must engage the PRC diplomatically to encourage PRC democratization. As Gates Bill wrote after Taiwan's 2000 election:

"Though certainly difficult for the current Beijing leadership to contemplate, profoundly consequential lessons should be drawn from the Taiwan experience and its meaning to China's future. At every opportunity, Americans should encourage Chinese interlocutors to think positively about how the democratization of Taiwan can empower reform on the mainland and lay the groundwork for meaningful political harmonization between Beijing and Taipei over the long-term."<sup>61</sup>

Peaceful transition to democracy by the PRC may offer the best chance for successful resolution of the problem.

War between the U.S. and China over Taiwan is not inevitable, although the situation in the Taiwan Strait has the potential for gross miscalculation by any of the three protagonists. The fact that previous crises in 1954, 1958 and 1996 were peacefully resolved has little bearing on the future. The strategic environment has changed significantly during the past 30 years and will continue to change for the next 30 years. Subject to unforeseen circumstances, the PRC's ascendancy as a global power and regional hegemon is assured. The PRC military is no longer the paper tiger of the past. The Chinese are rapidly acquiring the military means to execute their stated national policy. Eagerness on their part to flex the military element of national



power may cause the PRC to miscalculate U.S. resolve to protect its interests in the region and failure by the U.S. to clearly state its interests will contribute to any potential misunderstanding.

The current status quo and intentional ambiguity may be the best possible course of action in the short term. Pursuing a containment model similar to that which was successful against the former Soviet Union is inimical to U.S. interests. The situation the U.S. and its Western European allies faced with the U.S.S.R. was unique. The solution to the current and future situation we face with China must also be unique. A coherent long term and consistent strategy employing all elements of U.S. national power in conjunction with allies in the region will ultimately yield the best results. A policy of constructive engagement with China coupled with a credible military capability if engagement fails offers the best chance of success. Armed conflict between China and the U.S. over Taiwan could quickly spin out of control since two of the potential belligerents have nuclear weapons. Bold pronouncements and saber rattling by either side serve no useful purpose. Failure to achieve a diplomatic resolution to this situation would be catastrophic to everyone with an interest in the region.

WORD COUNT = 8729

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